

Department of Homeland Security **Office of Inspector General**

**The Village of Saltaire, New York, Generally Managed
FEMA's Public Assistance Grant Funds Effectively**






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Department of Homeland Security

Washington, DC 20528 / www.oig.dhs.gov

March 26, 2014

MEMORANDUM FOR: Laura Phillips
Executive Director
New York Sandy Recovery Office
Federal Emergency Management Agency

FROM: John V. Kelly 
Assistant Inspector General
Office of Emergency Management Oversight

SUBJECT: *The Village of Saltaire, New York, Generally Managed
FEMA's Public Assistance Grant Funds Effectively*
FEMA Disaster Number 4085-DR-NY
Audit Report Number OIG-14-58-D

We audited Public Assistance grant funds awarded to the Village of Saltaire, New York (Saltaire) (Public Assistance Identification Number 103-64881-00). Our audit objective was to determine whether Saltaire's policies, procedures and business practices are adequate to account for and expend Federal Emergency Management Agency (FEMA) grant funds according to Federal regulations and FEMA guidelines. We conducted this audit early in the Public Assistance process to identify areas where Saltaire may need additional technical assistance or monitoring to ensure compliance. In addition, by undergoing an audit early in the grant cycle, grant recipients have the opportunity to correct non-compliance with Federal regulations before they spend the majority of their funding. It also allows them the opportunity to supplement deficient documentation or locate missing documentation before too much time elapses.

The New York State Division of Homeland Security and Emergency Services (State), a FEMA grantee, awarded Saltaire \$13.2 million for damages resulting from Hurricane Sandy, which occurred on October 29, 2012. The award provided 90 percent funding for debris removal (Category A), emergency protective measures (Category B), and permanent work (Categories C–G) for 13 projects (9 large and 4 small projects).¹ We audited 10 of the 13 projects totaling \$12.97 million or 98 percent of the award (see exhibit). The audit covered the period October 27, 2012, through July 23, 2013, during which Saltaire claimed \$347,288 for work in our audit scope. At the time of our fieldwork, insurance covered a small amount of storm-related damage.

¹ Federal regulations in effect at the time of the disaster set the large project threshold at \$67,500.



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We conducted this performance audit between July 2013 and December 2013 pursuant to the *Inspector General Act of 1978*, as amended, and according to generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based upon our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based upon our audit objective. We conducted this audit by applying the statutes, regulations, and FEMA policies and guidelines in effect at the time of the disaster.

We interviewed FEMA, State, and Saltaire officials; reviewed judgmentally selected project costs generally based on type of expenditure; and performed other procedures considered necessary to accomplish our objective. We also notified the Recovery Accountability and Transparency Board of all contracts the subgrantee awarded under the grant to determine whether the contractors were debarred or whether there were any indications of other issues related to those contractors that would indicate fraud, waste, or abuse. We did not assess the adequacy of Saltaire's internal controls applicable to grant activities because it was not necessary to accomplish our audit objective. However, we did gain an understanding of Saltaire's method of accounting for disaster-related costs and its procurement policies and procedures.

BACKGROUND

The Village of Saltaire is a local government entity in Suffolk County, New York. It is located on Fire Island, a barrier island that separates the Atlantic Ocean and the Great South Bay. Saltaire is situated entirely within mapped flood and coastal erosion hazard areas. Its roadway system is a combination of wooden boardwalks capable of supporting vehicles and concrete slab sections. Hurricane Sandy's storm surge damaged sections of Saltaire's roadway, which became buoyant, causing the roadway to lift and twist. When the waters receded, the roadway shifted, either remaining at the lifted elevation or settling back to an elevation lower than before the storm (see figure 1).



Figure 1. Damaged Boardwalks after Hurricane Sandy



Source: Village of Saltaire, Neptune Walk

RESULTS OF AUDIT

Saltaire's policies, procedures, and business practices were adequate to account for and expend FEMA grant funds according to Federal regulations and FEMA guidelines. Saltaire accounted for costs on a project-by-project basis, used full and open competition in awarding \$3.49 million in contracts, and took affirmative steps to solicit small, minority, and women-owned firms. However, these contracts did not include all required contract provisions. We also identified two minor problems concerning Saltaire's supporting documentation for force account equipment and direct administrative costs. After we discussed these issues with Saltaire officials, they began taking steps to correct these problems. Taking these corrective actions now increases the likelihood that Saltaire will comply with all regulatory requirements if they receive additional FEMA funds in the future.

Although not directly related to our audit objective, we identified minor problems where FEMA obligated funds for ineligible water pipe upgrades and grass replacements and made errors in estimating square footage and calculating fringe benefit rates. FEMA officials said they plan to address these problems and make needed adjustments.

Contract Provisions

Although Saltaire used full and open competition in awarding \$3.49 million for two permanent work contracts and took affirmative steps to solicit small, minority, and women-owned firms, Saltaire did not include all the contract provisions required by 44 Code of Federal Regulations (CFR) 13.36(i). Federal regulation 44 CFR 13.36(i) requires subgrantees to include specific provisions in their contracts. We communicated



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our observation to Saltaire officials, who said they were unaware of the requirement to include these contract provisions. Subsequently, Saltaire officials corrected the problem by modifying its contracts to comply with Federal regulations.

Supporting Documentation

We identified two minor issues concerning the adequacy of Saltaire's supporting documentation for force account equipment and direct administrative costs. According to 2 CFR 225, *Cost Principles for State, Local, and Indian Tribal Governments*, Appendix A, Section C.1.j, a cost must be adequately documented to be allowable under Federal awards.

Force Account Equipment

Saltire officials did not properly document their equipment logs to show which individual staff members used equipment for disaster operations. We discussed this with Saltaire officials. They explained that they did not have time after the disaster to document equipment use and were unaware of the documentation requirements. They also said this occurred because using equipment logs was not part of their normal routine. Saltaire officials acted quickly to correct this problem by modifying their timesheets to account for equipment usage.

Direct Administrative Costs

Saltire did not track and charge direct administrative costs directly to a specific project as FEMA policy requires. Saltaire maintained timesheets for its Administrator and one of its part-time staff, but did not properly allocate and document time for another full-time employee working on Sandy-related projects. Saltaire also did not document the detailed activities that the one full-time employee performed.

FEMA Disaster Assistance Policy 9525.9 allows subgrantees to claim administrative costs related directly to a specific project, but subgrantees must properly document the costs and clearly relate them to a specific project. We discussed this issue with Saltaire officials who explained that the full-time employee's functions were broad and it would have been burdensome to track and record Sandy-specific and project-specific time. However, Saltaire officials understood the problem and said they plan to review employee time records and determine how to better document direct administrative costs.



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Other Matters

We identified minor problems with FEMA's project development that were unrelated to Saltaire's management of the funds. Specifically, FEMA obligated funds for ineligible water pipe upgrades and grass replacement and made errors estimating the square footage of Saltaire's boardwalk and calculating fringe benefit rates for Saltaire's employees.

FEMA Approved Ineligible Work

In two instances, FEMA approved ineligible work estimated at \$10,913 for water pipe upgrades and grass replacement.

- Project 614 (Pipe Upgrade) – FEMA approved \$179,103 to repair Saltaire's damaged water main pipes at two locations. This amount included \$8,955 for ineligible upgrades to the pipes. The project worksheet stated that Saltaire planned to increase the water pipe diameter from 4 inches to 6 inches at one location and from 6 inches to 8 inches at a second location. FEMA Disaster Assistance Policy 9527.4 lists five criteria under Federal regulation 44 CFR 206.226(d) that apply to codes that change the pre-disaster construction of a facility. One of the five criteria states that the work must "be found reasonable, in writing, and formally adopted and implemented by the State or local government on or before the disaster declaration date or be a legal Federal requirement applicable to the type of restoration."

During fieldwork, we asked Saltaire officials to provide us the codes and standards supporting the pipe upgrades. However, Saltaire was unable to provide any codes and standards or documentation from Saltaire's Board of Trustees that approved the upgrade before Hurricane Sandy. Subsequently, FEMA officials informed us that the National Fire Protection Association recommended pipes with no less than 6 inches in diameter for fire service. FEMA also cited two assessments recommending a pipe upgrade: (1) a hydraulic study dated in 2000 of Saltaire's water system and (2) an engineer's assessment of Saltaire's water main damages after the hurricane. While we recognize the assessments' recommendations to increase the pipe diameter, there were no legally binding codes and standards requiring the pipe upgrades. Therefore, the upgrades are not eligible under FEMA's Public Assistance program. If evidence indicates that larger pipes will mitigate future damage, FEMA should classify the



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upgrades as 406 mitigation, which is eligible under the program under certain circumstances.²

- Project 2111 (Grass Replacement) – FEMA approved \$1,958 to replace grass in Saltaire’s ball field that floodwaters damaged. FEMA Disaster Assistance Policy 9524.5 states that grass and sod replacement is eligible only when it is necessary to stabilize slopes and minimize sediment runoff. The replacement of grass and sod for purposes other than slope stabilization or minimization of sediment runoff is not eligible for reimbursement. We discussed this matter with FEMA officials, who agreed that the grass replacement for this project is ineligible and reduced the approved project amount by \$1,958.

FEMA Made Errors in Calculating Square Footage and Fringe Benefit Rates

FEMA incorrectly calculated square footage and fringe benefit rates for two projects. FEMA calculated square footage for Saltaire’s boardwalk reconstruction project using incorrect road dimensions resulting in a higher project cost estimate. In addition, FEMA reimbursed Saltaire based on FEMA’s calculation of fringe benefit rates, instead of Saltaire’s actual rates. We brought both these issues to the attention of FEMA officials who said they would revise the project worksheet to correct the square footage miscalculation and reimburse Saltaire for actual expenses incurred when Saltaire submits supporting documentation at project closeout for the fringe benefit rates.

RECOMMENDATION

We recommend that the Executive Director, New York Sandy Recovery Field Office, FEMA Disaster Number 4085-DR-NY:

Recommendation #1: Direct the New York State Division of Homeland Security and Emergency Services to work with Saltaire officials to document direct administrative costs properly.

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOWUP

We discussed the results of our audit with FEMA, State, and Saltaire officials during our audit and included their comments in this report, as appropriate. We also provided a draft report in advance to these officials and discussed it at exit conferences held with

² Sections 404 and 406 of the *Stafford Act* provide for two types of funding for hazard mitigation. Section 406 mitigation is eligible under FEMA’s Public Assistance program (see FEMA’s *Public Assistance Guide*, FEMA 322, June 2007, pp. 124–127).



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FEMA and Saltaire officials on December 18, 2013, and State officials on December 17, 2013. FEMA, State and Saltaire officials agreed with our findings and recommendation. Within 90 days of the date of this memorandum, please provide our office with a written response that includes your (1) agreement or disagreement, (2) corrective action plan, and (3) target completion date for the recommendation. Also, please include the contact information of responsible parties and any other supporting documentation necessary to inform us about the current status of the recommendation. Until we receive your response, we will consider the recommendation open and unresolved.

Consistent with our responsibility under the *Inspector General Act*, we will provide copies of our report to appropriate congressional committees with oversight and appropriation responsibility over the Department of Homeland Security. We will post the report on our website for public dissemination.

Major contributors to this report are Christopher Dodd, Acting Director; Judy Martinez, Audit Manager; Kristine Odiña, Auditor-in-Charge; DeAnna Fox, Senior Auditor; and John Jadick, Program Analyst.

Please call me with any questions at (202) 254-4100 or your staff may contact Christopher Dodd, Acting Director, Central Regional Office, at (214) 436-5200.



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Exhibit

Schedule of Projects Reviewed

Project Number	Category of Work	Gross Award Amount	Insurance Reductions	Net Award Amount
630	C	\$10,065,681	\$ 0	\$10,065,681
1885	C	1,126,546	0	1,126,546
2034	C	913,093	0	913,093
2134	C	225,803	0	225,803
614	F	179,103	0	179,103
2111	G	169,675	0	169,675
615	A	160,073	0	160,073
1228	G	101,812	0	101,812
2077	E	21,146	4,362	16,784
2084	G	<u>10,351</u>	<u>0</u>	<u>10,351</u>
Totals		<u>\$12,973,283</u>	<u>\$4,362</u>	<u>\$12,968,921</u>



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